



CITY OF SAN ANTONIO

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SAN ANTONIO, TEXAS 78283-3966

April 25, 2006

Phil Hardberger
Mayor

Roger Flores
Councilman, District 1

Sheila McNeil
Councilwoman, District 2

Roland Gutierrez
Councilman, District 3

Richard Perez
Councilman, District 4

Patti Radle
Councilwoman, District 5

Delicia Herrera
Councilwoman, District 6

Elena Guajardo
Councilwoman, District 7

Art Hall
Councilman, District 8

Kevin Wolff
Councilman, District 9

Christopher "Chip" Haass
Councilman, District 10

Sheryl Sculley
City Manager

Michael Bernard
City Attorney

Michael Armstrong
Assistant City Manager /
Chief Information Officer

Janie Cantu
Purchasing and General
Services Director

Tom Wendorf
Public Works Director

Malcolm Mathews
Parks and Recreation Director

Mark Webb
Interim Aviation Director

Shawn Eddy
Interim Asset Management
Director

Ladies and Gentlemen:

RE: City Management's Corrective Action Plan for and the Report on the General Review of the Purchasing Card (P-card) Program and Utilization by Purchasing and General Services, Public Works, Parks and Recreation, Aviation and Asset Management Departments

We are pleased to attach for your review the consolidated report for audits of the P-card Program. This series of audits began in fall 2004 and continued through spring 2005, and concluded by exit conferences with the involved Departments in December 2004 and September 2005. Due to changes in City Executive Management and organizational realignment, additional meetings occurred in late 2005 to discuss issues in the report and to clarify Management's responses. The City Attorney's Office was also consulted about state procurement requirements. The Management and Staff of the Departments audited should be commended for their cooperation and assistance during the audits, especially since this was the first review of the P-card Program since it began in 2001.

Using purchasing cards has evolved as a means to acquire low value goods with greater efficiency. While the City's Program has expanded slowly, it was invaluable when dealing with the needs of evacuees from Hurricanes Katrina and Rita last year. However, the logistics, performance results, and controls for the P-card Program are not broadly known and/or understood by City Management and Staff involved in the processes. In addition, this information

has not been periodically shared with the Mayor and City Council Members. We believe that this communication is critical because the Program is a fiscal policy issue that allows designated Staff to use the City's credit. Based on transaction and monthly card control limits in effect during the audits, the cumulative purchasing capacity was up to \$1 million per month, or \$12 million annually. However, in fiscal year 2004, the total City purchases using the P-cards amounted to only \$1.4 million. In addition, the Mayor and Council should periodically be briefed on how the City's SBEDA policy and program are complimented, or impacted, by this Program. No such reports were prepared or available from early 2001 until late 2005 that evaluated the small/minority purchase impact.

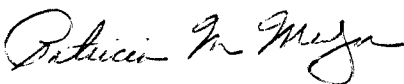
A credit card program can be a very cost effective tool for purchasing; however, the activities should be adequately reported and monitored to ensure that no misuse, abuse or theft occurs. The sample of transactions reviewed during this audit did not indicate any such problems. There were concerns and recommendations about the need to improve/strengthen the internal controls for the Program. Many items purchased could be desirable for personal consumption, such as tools, lumber, cleaning supplies, postage stamps, hardware, plumbing parts, etc. Departmental oversight is critical to ensure that items purchased are consumed in the conduct of City business. Accordingly, the City Management Team should ensure that a cost effective but appropriate set of standards for purchases using these cards are developed, approved, implemented and monitored. The City can request more detailed electronic transaction information from the service provider, Bank of America, for its continuous monitoring initiative.

Various analyses have been summarized in the detailed report to give you some indication as to where the purchases are made and the level of activity. Data on merchant category codes (MCC) activity, and exceptions due to declined transactions and/or blocked MCCs have been presented. These would be areas for City Management to further examine for potential patterns or problems.

The Corrective Action Plan provided by the City Management Team generally agrees with the recommendations offered as a result of these audits. However, the P-card Program by its nature will require on-going scrutiny by the City to ensure that its use is reasonable, cost effective and appropriate.

The Internal Audit Department appreciates the opportunities to have performed these reviews because they have highlighted areas for substantial improvements in a Program that is still relatively new for the City. We are available to discuss this material with you individually at your convenience.

Sincerely,



Patricia M. Major CPA, CIA, CGFM, CTP
City Internal Auditor
San Antonio, Texas

cc: Leticia Vacek, City Clerk
All Other City Department Directors
Oz Parker, Purchasing Manager
Terry Collazo, Purchasing Card Administrator